



# EFFICIENCY ANALYSIS OF USG CASH TRANSFER ASSISTANCE

DECEMBER 2010



**GEORGIA MONITORING PROJECT**



**EFFICIENCY ANALYSIS OF USG CASH TRANSFER ASSISTANCE**

**DEPARTMENT OF STATE  
OFFICE OF THE COORDINATOR OF U.S. ASSISTANCE TO EUROPE AND EURASIA (EUR/ACE)  
MONITORING USG ASSISTANCE PROGRAM RESULTS IN GEORGIA  
(GEORGIA MONITORING PROJECT)**

**SOLICITATION NUMBER: SAQMMA10Q0066**



***Submitted to:***

United States Department of State  
Mary E. Stewart  
Office of the Coordinator of U.S. Assistance to Europe and Eurasia  
2201 C Street, NW, Room 4227  
Washington, D.C. 20520  
Email: [Stewartme@state.gov](mailto:Stewartme@state.gov)



***Submitted by:***

International Business & Technical Consultants, Inc. (IBTCI)  
8618 Westwood Center Drive Suite 220 • Vienna, VA • 22182  
Telephone: (703) 749-0100 • Facsimile: (703) 749-0110  
Email: [jsk@ibtci.com](mailto:jsk@ibtci.com)

**Prepared by: Dr. Mamuka Shatirishvili**

**DECEMBER 5, 2010**

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## **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
CD	Compact Disk
CTA	Cash Transfer Assistance
CTGA	Cash Transfer Grant Agreement
EC	European Commission
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEL	Georgian Lari
Geostat	National Statistics Office of Georgia
GMP	Georgia Monitoring Project
GOG	Government of Georgia
IBTCI	International Business and Technical Consultants, Inc.
IDP	Internally Displaced Person
IFC	International Financial Corporation
IHS	Integrated Household Survey
IMF	International Monetary Fund
JNA	Joint Needs Assessment
Q	Calendar Quarter
USAID	United States Agency for International Development
USD	United State Dollar
USG	United States Government
VAT	Value Added Tax
WB	World Bank

**ACKNOWLEDGMENTS**

I would like to extend my thanks to Deputy Minister of the Ministry of Finance, Mr. Dimitri Gvindadze, and his colleague, Mr. Giorgi Kakauridze, for their support while I was working on the concept of this report. I would also like to extend my thanks to Mr. Zaza Chelidze, CEO of Geostat, and his macroeconomic statistics team who provided all datasets required for the analysis. My special thanks go to Mr. Nodar Kapanadze for being my constant advisor during the analysis. Very special thanks must go to Ms. Martina Nicolls for being the general sounding board with the U.S. Embassy and United States Department of State.

**DISCLAIMER**

The author's views expressed in the publication do not necessarily reflect the views of the United States Department of State or the United States Government.

## EXECUTIVE SUMMARY

### Background

From the time of the collapse of the Soviet Union in December 1991 until 2003, the Georgian economy was in a period of stagnation. Rapid government reforms commenced with the change of government in November 2003, the “Rose Revolution.” The reforms increased the Georgian population’s economic activity that resulted in the growth of their income and expenditure. It also resulted in the transition from a structure that was typical of agrarian countries with less-developed economies into a structure that more resembled countries with developed economies. The positive impact of reforms became evident in 2007 and in the first half of 2008 with the extremely high speed of growth of household income and expenditure: from Q2 of 2003 to Q2 of 2008 the average monthly total income per household was increased from 303 GEL to 530 GEL - a growth of 75%. But, the August 2008 conflict between Russia and Georgia changed the landscape, almost halting all growth as a result of the dislocation of political, economic and social structures. After the conflict, the Georgian economy was weak, with government funds diverted from planned expenditure to post-conflict recovery.

On October 22, 2008, acting through the United States Agency for International Development (USAID), the United States Government (USG) and the Government of Georgia (GOG) signed a Cash Transfer Grant Agreement of \$250 million which stipulated that the assistance was provided for two specific purposes:

- To stabilize the Georgian economy; and
- To mitigate fiscal shortfalls.

On November 11, 2008, the GOG provided USAID with a description of the proposed budgetary expenditures, including amount, purpose and timeframe which was approved on November 14 and credited to the local GOG currency Treasury Single Account on November 18 - within three months of the conflict. The funds covered the period from November 2008 to February 2010. The GOG used the Cash Transfer Assistance (CTA) primarily for the reimbursement of pensions, allowances for refugees and internally displaced people (IDPs), student stipends, financing secondary schools, health care programs, and salaries and compensations for government organizations and municipalities at the national level. Approximately 30% of the Georgian population benefited from the Cash Transfer Assistance.

### The Study

The objective of this study is to present the findings of the analysis that asked the following question: to what extent did the CTA contribute toward mitigating fiscal shortfalls and stabilizing the Georgian economy by preventing a significant decline in the post-conflict welfare of the Georgian population due to their reduced income?

To provide evidence-based conclusions, GMP’s analysis covered 10.5 years, from January 1999 to June 2010. It shows the stability of the Georgian Government before the August 2008 conflict and the conflict’s impact on the GOG budget. The analysis also shows two scenarios:

- What actually happened to the GOG budget with USG’s CTA; and
- What might have happened if the CTA was not provided.

The Georgian economy was healthy from 2003; government reforms were in place, people’s incomes were increasing, and foreign investors were attracted to the region. Then the Russia-Georgia conflict occurred in August 2008. Although brief, income growth decreased after the conflict. Significant decrease in household income was anticipated by the GOG and donors after experiencing such a shock to the economy caused by the need to spend government funds on

emergency, recovery, and rehabilitation. The fact that income growth did not decrease significantly, but only marginally, thus preventing the government from destabilizing, resulted from GOG's activities undertaken with donor funds for budget support, of which the USG CTA was a timely and large proportion (37%).

USG provided the GOG with vital cash assistance in order to neutralize the hard shock of the August conflict. The GOG was able to provide pensioners, IDPs and refugees with their only source of income; keep schools open; and maintain government organizations through uninterrupted payment of salaries. If the GOG was unable to maintain people's living conditions, it may have created severe difficulties for the population of the country and destabilized the government.

### **Conclusions**

An uninterrupted distribution of pensions, social allowances to IDPs and refugees, and salaries to state organizations resulted in the following results by the end of June 2010:

- The average monthly nominal total income per household reached 612 GEL, which was 15% more than before the 2008 conflict; and
- The average monthly nominal total expenditure per household reached 537 GEL, which was exactly the same level as the period before the 2008 conflict.

## INTRODUCTION

The Georgia Monitoring Project (GMP) is a two-year program (June 2010 - May 2012) funded by the U.S. Department of State to monitor the results of the U.S. Government's foreign assistance to Georgia under the \$1 billion pledge post August 2008 – the Russian conflict.

This report analyzes the efficiency<sup>1</sup> of the \$250,000,000 cash transfer assistance provided by the USG to the GOG within the framework of a Cash Transfer Grant Agreement signed on October 22, 2008. Its administration was delegated to the USAID.

### **Why the Cash Transfer Assistance was provided to the Georgian Government**

Immediately after the conflict with Russia in August, 2008, the GOG launched a post-conflict recovery program, including: (1) settling and housing tens of thousands of IDPs, and (2) fixing the roads, bridges and other infrastructure damaged during the conflict. These emergency activities increased government expenditure and simultaneously affected the Government's potential income from tax revenues and foreign investment, and the people's potential income from business revenues, agricultural activities, and government social services.

To support Georgia's financial needs for post-conflict recovery, a donor Joint Needs Assessment (JNA) conference took place in Brussels in October 2008 chaired by the World Bank and the European Commission. At the JNA conference two phases of assistance to Georgia were identified. Phase I covered the period from October 2008 to the end of March 2009, i.e. the period identified as the immediate post-conflict period when critical damage-related needs and those arising from social displacement had to be addressed. Phase II covered the 12 month period to the end of March 2010, as part of the recovery and reconstruction program. Over these two phases, the total donor commitment for the public sector was identified as \$2.5 billion, out of which \$678 million was allocated for budgetary support.<sup>2</sup> The USG provided the greatest share: \$250 million (37%).

### **Purposes of the Cash Transfer Assistance**

On October 22, 2008, acting through USAID, the USG and the GOG signed a Cash Transfer Grant Agreement of \$250 million which stipulated that the assistance was provided for two specific purposes: (1) to stabilize the Georgian economy; and (2) to mitigate fiscal shortfalls.

Considering the flexibility given to the GOG by the USG and the large number of pensioners (approximately 800,000/18% of the population) for whom their pension is their only source of income, IDPs from previous conflicts (approximately 220,000<sup>3</sup>) and IDPs from the August (new) conflict (approximately 127,000<sup>4</sup>), the decision was made by the GOG to use the Cash Transfer Assistance primarily for the reimbursement of pensions, allowances for IDPs and refugees, student stipends, financing secondary schools (approximately 100,000 teachers and administrative personnel<sup>5</sup>), health care programs, and salaries and compensations for government organizations and municipalities at the national level (approximately 70,000<sup>6</sup>). In

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<sup>1</sup>This report defines efficiency analysis as "whether the most appropriate assistance was provided at the most appropriate time"

<sup>2</sup> Of the \$678 million for budget support, USG contributed \$250m (37%), ADB \$150m (22%), EC \$135.7m (20%), WB \$125m (18%) and others \$17.2m (3%) [Source: A Second Progress Report (Georgia JNA), June 2010]

<sup>3</sup> UNHCR, May 2009, [www.unhcr.org](http://www.unhcr.org)

<sup>4</sup> UNHCR, September 12, 2008, [www.unhcr.org](http://www.unhcr.org)

<sup>5</sup> A secondary school has autonomy to spend allocated budget. The budget includes: minor renovation, procurement of equipment, furniture, stationary, supply, reimbursement of utility cost, personnel salary and travel related expenses. GMP analysis includes only teachers and administrative personnel salaries.

<sup>6</sup> The number has been estimated based on Integrated Household Survey datasets, [www.geostat.ge](http://www.geostat.ge)



total, the CTA benefited approximately 1.3 million people (30% of the population). Through this approach the GOG maintained the living conditions of the most vulnerable groups in Georgia, kept schools open, and kept government organizations functioning.

On November 11, 2008, the GOG provided USAID with a description of the proposed budgetary expenditures, including amount, purpose and timeframe (Annex 2 Graph 1), which was approved on November 14, 2008 and credited to the local GOG currency Treasury Single Account on November 18<sup>7</sup>—within three months of the conflict and two months after the JNA conference. The funds covered the period from November 2008 to February 2010.

The objective of this study is to present the findings of the analysis that asked the following question: to what extent did the CTA contribute toward mitigating fiscal shortfalls and stabilizing the Georgian economy by preventing a significant decline in the post-conflict welfare of the Georgian population due to their reduced income?

## Methodology

The methodology includes a measure of the macroeconomic impact of the CTA. For a macroeconomic analysis, GMP chose to measure CTA's influence on real Gross Domestic Product (GDP).<sup>8</sup> Changes in macroeconomic indicators are reflected in the welfare of the country's people. Welfare can be measured by various microeconomic indicators, but GMP focused on Household Income and Expenditure, provided by Geostat,<sup>9</sup> because income reflects livelihood improvements and expenditure reflects the value of purchased goods and services to achieve a level of welfare. The analysis provides an explanation of changes in income and expenditure (cash spent on food and non-food items) within the population at the national level. A detailed description of the methodology and data sources is provided in Annex 1.

The situational analysis covers 10.5 years, from January 1999 to June 2010. The timeframe is important because it shows the stability of the Georgian Government before the August 2008 conflict and the conflict's impact on the GOG budget. The analysis also shows two scenarios: (1) what actually happened to the GOG budget with USG's CTA; and (2) what might have happened if the CTA was not provided (this is referred to as a counter-factual)<sup>10</sup>. Conducting a counter-factual argument shows what may have happened if donor support was not provided in a timely manner.

## FINDINGS

### Overview of Georgia's Macroeconomics

Since the collapse of the Soviet Union in December 1991, Georgia became an independent country and changed from the Soviet "Centralized Planned Economy" to a market economy. Together with a collapsed economy, the country had two conflict areas: Abkhazia and South Ossetia. From 1991 to 1995, the GDP was reduced by 70%.

The Georgian economy stabilized in 1995 and slowly started growing from 1996. In 2003, the growth accelerated, initiated by the construction of an Oil Pipeline connecting Baku (Azerbaijan) to Geikhan (Turkey). Since the "Rose Revolution" in November 2003 in which there was a

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<sup>7</sup> Grant Thornton, Financial Audit of the Government of Georgia's Separate Dollar Account, U.S. Dollar Related Account & Local Currency Treasury Single Account Under USAID/Caucasus's Budgetary Support for the GOG Fiscal Year 2009, (draft) May 2010, p17

<sup>8</sup> GDP has been calculated at constant 2003 prices according to chain-linked volume indices ([www.geostat.ge](http://www.geostat.ge))

<sup>9</sup> Geostat is an independent body of the National Statistics Office of Georgia, a legal entity of Public Law

<sup>10</sup> A counter-factual is a conditional statement indicating what *would be* the case if its antecedent *were* true. This is to be contrasted with an indicative conditional, which indicates what *is* (in fact) the case if its antecedent *is* (in fact) true.

change in political leadership in Georgia, the situation changed dramatically. The GDP growth rates, according to Geostat, were 9.6% in 2005, 9.4% in 2006 and 12.3% in 2007. Between 2005 and 2007 the increase in GDP was significant and GDP was close to 20 billion GEL (about \$10 billion). This was a direct result of revolutionary reforms in the country's economy commenced in 2003 and completed in 2004 (Annex 2 Graph 2).

Foreign Direct Investment (FDI)—direct investments in productive assets in the country by foreign investors—is one of the major contributors to GDP growth because it shows that there is confidence in the country's economic stability. Between 1999 and 2003 FDI increased significantly from \$100 million to \$200 million. Some increase was recorded in 2003 due to the construction of the Baku-Geikhan Oil Pipeline and remained unchanged until 2006. At this time results of government reforms following the Rose Revolution became tangible, and in 2006 FDI exceeded \$1 billion and in 2007 doubled to \$2 billion.

These positive macroeconomic trends were halted in August of 2008 due to the conflict with Russia. By the end of 2008, the government's national economic difficulties, including a decrease in FDI, became apparent (Annex 2 Graph 3).

Graph 4 in Annex 2 depicts the changes in total income and expenditure from January 1999 to June 2010. This 10.5-year period can be distinguished in three major time phases: (1) the period from Q1 1999 to Q4 2003 when stagnation characterized the 1990s; (2) the period from Q1 2004 to Q3 of 2008 when, due to revolutionary reforms, household income and expenditure increased and their structure changed significantly; and (3) the period from Q3 2008 to Q2 2010, after the Georgia-Russia conflict (August 2008) to July 2010.

### **Situational Analysis 2003-2008: A Period of Reforms**

The process of rapid reforms started in Georgia after the change of government in 2003. Reforms were carried out during this period, which raised the level of legalization of incomes and fostered income. At this time, the quarterly speed of income growth was approximately 3.1%, which was 1.9 times more compared to 1999-2003. However, the period between 2004 until the first half of 2008 was not homogeneous. This period can be divided into two phases:

- Between 2004 until the end of 2006, when reforms were being carried out and their impact on household income was becoming stronger; and
- Between 2007 until the first half of 2008, when reforms made during 2004-2006 had produced results and it was reflected in household income records. Quarterly growth of average household income was equal to 4.9%, which was 2.3 times higher than 2004-2006, and was 3 times higher than 1999-2003 (Annex 2 Graphs 5&6).

This period was characterized by an increase in income obtained from agricultural self-employment. This source of income increased 10% during this period (Annex 2 Graph 7). This income was unstable during 1999-2003, but from 2004-2008 there was stable growth. Pensions and social allowances for IDPs increased too (Annex 2 Graph 8)—8 times from 2004 to mid-2008. Their percentage share in total income increased 3 times. Government jobs increased and municipalities were functioning.

A radically different period started in Georgia after 2004, which was connected with wide-scale reforms. A number of legislative and institutional changes were made that changed the economical processes and macroeconomic environment in the country. It was reflected in the amount of household expenditure, but changes in expenditure were not as instant as they were in the case of income. It can be explained in this way: source of income, employment, and state

social allocations are more sensitive to legislative regulations and state resolutions compared with expenditure indicators.

Thus, important growth in household expenditure started, but the speed of growth was slow during 2004-2006—approximately 1.2% of growth per quarter. The slow growth may have been related to consumer behavior and their difficulty moving to a new system. But these difficulties were overcome during 2007 and the first half of 2008 when the growth rate increased 3 times. The quarterly rate of growth of the population's total expenditure equaled 3.6% in 2007, and the first half of 2008, which resulted in an impressive level of total household expenses for the first time in 2008 when the average monthly expenditure of household exceeded 500 GEL (about \$250).

### **Situational Analysis 2008-2010 (with USG CTA)**

The second half of 2008 was one of the hardest periods for Georgia. The August war had impacted every field of social life including incomes. The war continued for only 5 days, but the results were much longer lasting.

The August war impacted the household income, because the GOG had to use funds for emergency relief and reconstruction. The GOG was concerned about potential delays to pension payments and the payment of government employee salaries, as well as the impact on the provision of other social services such as health programs. At the time, 47%<sup>11</sup> of the population was living in rural areas and their income from agricultural-related activities was threatened. Foreign investors were pulling out of the country and people's business activities were thwarted. Therefore GOG, and donors, anticipated significant decreases in people's income.

The impact of the conflict decreased income growth rate. With the contribution of USG's cash assistance and the GOG's decision to pay government salaries, pensions and stipends, people's income growth rate fell by only 1.1%. Income levels did not continue to decline. Georgia, therefore, passed this extremely difficult period without destabilizing their economy (Annex 2 Graphs 9-12).

The macroeconomic environment deteriorated after the August conflict. The psychological impact of the conflict was reflected in the attitude of the population, their consumer behavior and expectations. Total household expenditure decreased. But the expenditure decrease did not continue for a long time—only to the end of 2008. This was a result of the efficiency of government implemented activities, which ensured that the impact of the huge economic, social and political shock of the conflict continued only for a few months. The shock period was so short that it did not cause important changes in the structure of household expenditure. But it did slow down the trend of significant growth that was developing since 2007.

### **Hypothetical Situational Analysis 2008-2010 (without USG CTA)**

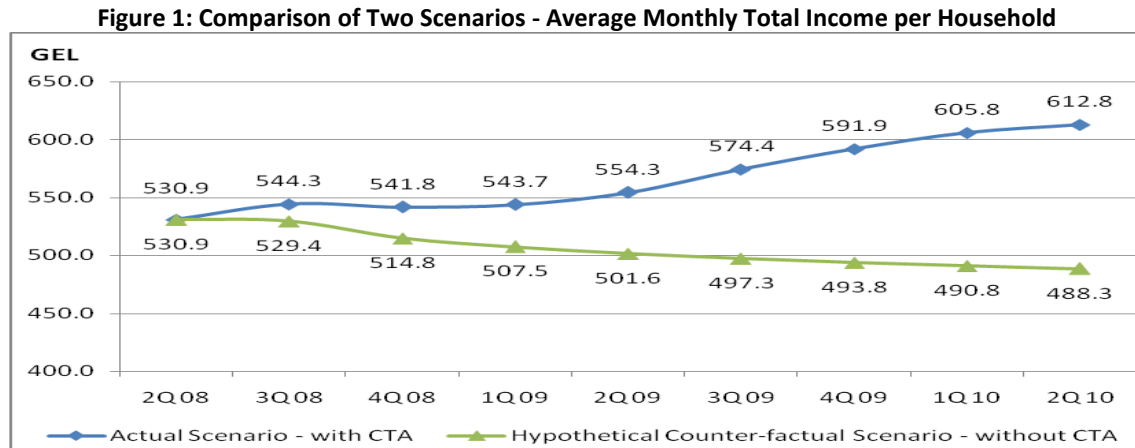
A presumable hypothesis is the following: "What would have happened if there was no USG CTA, i.e. if Georgian pensioners could not get their pensions during this period and government salaries were not paid? How would their income have changed?"

The distribution of pensions, social allowances for IDPs, and salaries were paid without delays resulting in maintaining household income levels, so no significant decrease was observed (Annex 2 Graph 13). If funds from the CTA contribution were not provided to the GOG, the

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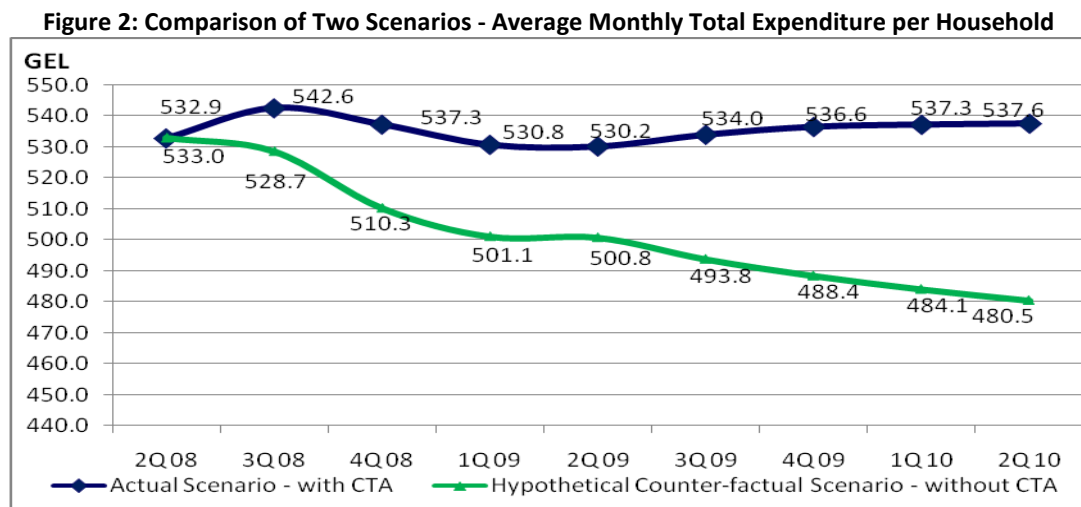
<sup>11</sup>Geostat, population statistics, January 2008

anticipated level of income would be less by an estimated 5-7%<sup>12</sup> compared with the actual level of income (Figure 1 below).



Changes in the level of total expenditures occurred in the 4<sup>th</sup> quarter of 2008 and 1<sup>st</sup> quarter of 2009. Removing the CTA amount, expenditure levels for the period of 4<sup>th</sup> quarter of 2008 and 1<sup>st</sup> quarter of 2009 would reduce accordingly. Thus, the level of total expenditure, not including pensions, IDP allowances and salaries for November 2008 to February 2009 decreased by 5-10% compared with the actual level of total expenditure for the same period. It may be said that without the USG CTA, the level of total expenditure would have decreased by 5-10% in Georgia.

However, another circumstance must be taken into consideration: the instant decrease of expenditure levels is not an event that can be neutralized within one quarter. Change of such a significant scale would make its corrections over time and a decreasing trend might continue for 1 or 2 years or for a longer period after the conflict (Figure 2 below). Thus USG CTA may have mitigated the decreasing total household expenditure level, making the decrease insignificant so that it was possible for the GOG to neutralize it within a short period—i.e. within 6 months. Growth resumed after the end of 2008. Without CTA, the decreasing trend of total household income could have been quite worse (Annex 2 Graph 14).



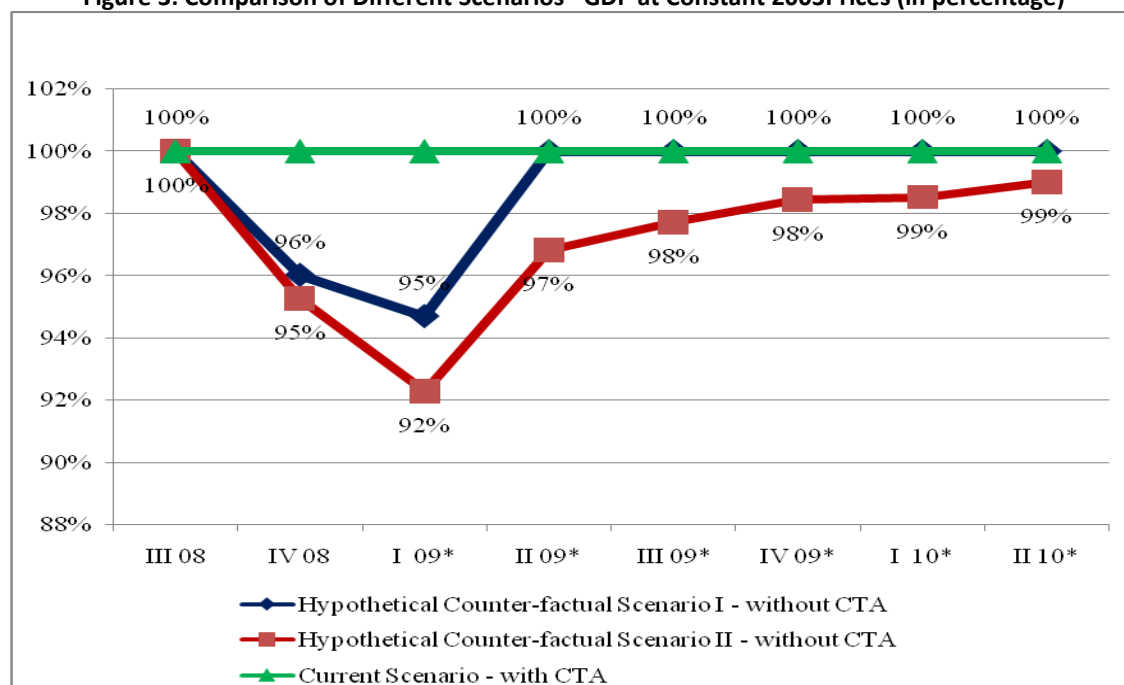
<sup>12</sup> Because \$250 million has been distributed from Nov. 2008 to Feb. 2009 (four months period only) the difference between Actual and Hypothetical scenarios was calculated for Q4 2008 and Q1 2009 e.g. difference in percentage between two scenarios by the end of Q4 2008 is calculated in the following way:  $1 - (541.8/514.8) \times 100 = 5\%$

GMP also measured the macroeconomic impact of the CTA. GMP subtracted an equal amount (\$250 million) from GDP over the relevant two-year period from August 2008. The main argument of this scenario is that much of the cash transfer, such as pensions and health programs, were not sources of savings for people. People do not save their pensions and these payments are transferred to the consumer market within a short period after its distribution – i.e. they spend their pensions and salaries. According to this simple approach, the real value of GDP, not including CTA, would be less by 1.06% and 1.14% respectively.

Considering the presumable influence on different sectors of the GDP, a second scenario is more complex and near to reality because, according to the Integrated Household Survey (IHS), pension income and salaries is generally spent on necessities. This means that the distributed pensions and IDP allowances are returned to the economy very quickly and the retail markets are the recipients. GMP also considered the “multiplier effect,” which depends on the state’s tax system and Georgia’s quarterly period of accountability. It means that some part of this amount that was transferred to the consumer market would be returned by the end of the quarter in the form of taxes; the other part would remain in the economy and its relevant share would be reflected in GDP. In this case GMP used a ratio of GDP and Gross Output for the retail trade, healthcare and social assistance sectors.

A given amount of money would not be returned to the budget immediately, would not be lost and would continue rotation and transformation in the Georgian economy. Approximately 60% of it would be reflected in GDP over the relevant period. Some part of it would be reflected in Value-Added Tax (VAT). Considering the retail trade and tax, approximately 22-24% of this amount would be returned to the budget and the remaining part would be reflected in GDP in the form of GDP created in the retail trade sector. If this approach is used, the real value of GDP, not including CTA, would be less by 1.26% (2008) and 3.46% (2009)<sup>13</sup>. A comparison of different scenarios is presented in Figure 3 below.

**Figure 3: Comparison of Different Scenarios –GDP at Constant 2003Prices (in percentage)**



<sup>13</sup> Geostat calculations

## CONCLUSIONS

As shown in the graphs, the Georgian economy was healthy from 2003; government reforms were in place, people's incomes were increasing, and foreign investors were attracted to the region. Then the Russia-Georgia conflict occurred in August 2008. Although brief, income growth decreased afterwards. Significant decrease in household income was anticipated by the GOG and donor community after experiencing such a shock to the economy caused by the need to spend government funds on emergency, recovery, and rehabilitation. The fact that the speed of income growth had only slowed, and had not decreased significantly, thus preventing the government from destabilizing, resulted from GOG activities undertaken with donor funds for budget support of which the USG CTA was a timely and large proportion.

USG provided the GOG with vital cash assistance in order to neutralize the hard shock of the August conflict. The GOG was able to provide pensioners, IDPs and refugees with their only source of income, keep schools open and maintain government organizations through uninterrupted payment of salaries. If the GOG was unable to maintain people's living conditions, it may have created severe difficulties for the population of the country and destabilized the government.

An uninterrupted distribution of pensions, social allowances to IDPs and refugees, and salaries to state organizations resulted in the following results by the end of June 2010:

- The average monthly nominal total income per household reached 612 GEL, which was 15% more than before the 2008 conflict; and
- The average monthly nominal total expenditure per household reached 537 GEL, which was exactly the same level as the period before the 2008 conflict.

## Annex 1: Methodology and Data Sources

This report analyzes the \$250,000,000 cash transfer grant provided by the Government of the United States (USG) to the Government of Georgia (GOG) within the framework of a Cash Transfer Grant Agreement (CTGA) signed on October 22, 2008. Its administration was delegated to USAID. The GOG received the Cash Transfer Assistance (CTA) in November 2008 primarily for the reimbursement of pensions, stipends, allowances for IDP and refugees, government salaries and compensations to the Georgian population to February 2009.

### Methodology

The methodology includes a measure of the macroeconomic impact of the CTA. For a macroeconomic analysis, GMP chose to measure CTA's influence on real GDP.<sup>14</sup> Changes in macroeconomic indicators are reflected in the welfare of the country's people. Welfare can be measured by various microeconomic indicators, but GMP focused on Household Income and Expenditure, provided by Geostat<sup>15</sup>, because income reflects livelihood improvements and expenditure reflects the value of purchased goods and services to achieve a level of welfare. The analysis provides an explanation of any changes in income and expenditure (cash spent on food and non-food items) within the population at the national level.

The situational analysis covers 10.5 years, from January 1999 to June 2010 to show two scenarios: (1) what actually happened to the GOG budget with USG's CTA; and (2) what might have happened if the CTA was not provided (this is referred to as a counter-factual). The timeframe is important because it will show the stability of the Georgian Government before the August 2008 conflict and the conflict's impact on the GOG budget. Conducting a counter-factual argument shows what may have happened if donor support was not timely.

The GMP team reviewed the draft Financial Audit Report developed by Grant Thornton for the Ministry of Finance of Georgia. Its objective was to conduct a financial audit of the transaction of the GOG's Separate Dollar Account at the Federal Reserve Bank of New York; the U.S. Dollar Related Account at the National Bank of Georgia; and the local currency Treasury Single Account under USAID/Caucasus's Budgetary Support for the GOG (fiscal year 2009) for the period from November 1, 2008 to February 28, 2009 in accordance with *U.S. Generally Accepted Government Auditing Standards and the Guidelines for Financial Audit Audits Contracted by Foreign Recipients* issued by the Inspector General.

The Financial Audit Report stated that the majority of USG Cash Transfer Assistance was used to reimburse the existing budget commitments to the population, which included salaries, compensations, pensions, stipends, and allowances. The audit results "disclosed no instances of noncompliance that are required to be reported here under the *U.S. Government Auditing Standards*."<sup>16</sup>

The GOG also contributed funds for the reimbursement of pensions, stipends, IDP allowances, salaries and compensations to the Georgian population from November 2008 to February 2009,

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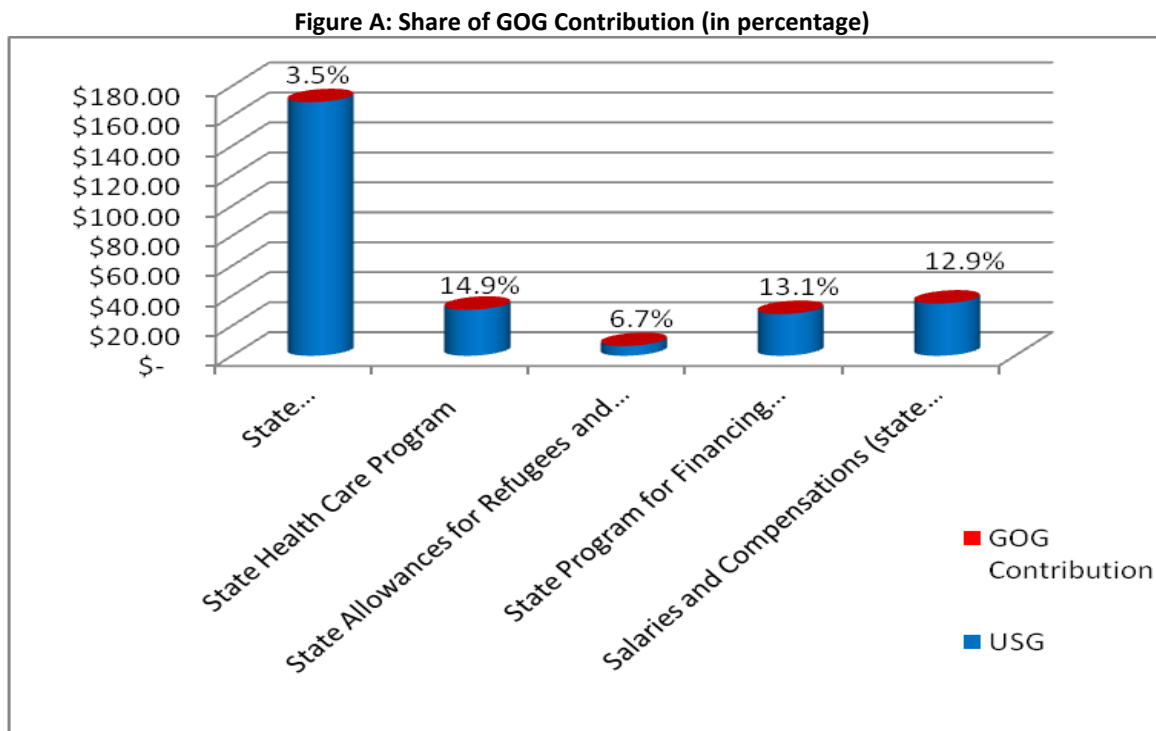
<sup>14</sup>GDP at constant 2003 prices

<sup>15</sup>Geostat is an independent body of the National Statistics Office of Georgia, a legal entity of Public Law

<sup>16</sup>Grant Thornton, Financial Audit of the Government of Georgia's Separate Dollar Account, U.S. Dollar Related Account & Local Currency Treasury Single Account Under USAID/Caucasus's Budgetary Support for the Government of Georgia Fiscal Year 2009, (draft) May 2010, p7



but due to the statistically insignificant share of its contribution (Figure A below) it was included in the analysis. To exclude it would have made no statistical significance to the analysis.



Source: Financial Audit of the GOG (Grant Thornton)

#### Household Income and Expenditure Records

This analysis shows how much the cash transfer initiative mitigated the potential decrease in incomes and expenditures. It also provides an explanation of any changes in income and expenditure structures (cash spent on food and non-food items) within the population at the national level.

For the recalculation of household income and expenditure records the steps were followed:

- Calculation of pensions, social subsidies, salaries, and IDP allowances for each interviewed household;
- Calculation of the total amount of pensions, social subsidies, salaries, and IDP allowances for the whole Georgian population for the given period;
- Calculation of income and expenditure indexes per household on a proportional basis.

#### GDP Calculations

The GMP also measured the macroeconomic impact of the CTA. For a macroeconomic analysis, GMP chose to measure CTA's influence on real GDP. The GMP designed two scenarios for the recalculation of the GDP:

- Scenario I – (the simplest way) subtraction of the amount equaling the assistance amount from GDP for the relevant period;
- Scenario II – considering the presumable influence on different sectors of the GDP.

For the first scenario, GMP subtracted an equal amount (\$250 million) from GDP over the relevant period. The main argument of this scenario is that pensions and social allowances are not sources of saving. People do not save their pensions and they are transferred to the consumer market within a short period after its distribution – i.e. they spend their pensions.



The second scenario is more complex and near to the reality as distributed pensions and allocations would be immediately transferred to consumer market and spent soon. According to the Integrated Household Survey (IHS), pension income is generally spent on necessities. This means that the distributed pensions and allowances are returned to the economy very quickly and the recipients are the retail market. While working on this scenario, GMP considered the “multiplier effect,” which depends on the state’s tax system and the country’s quarterly period of accountability. It means that some part of this amount that was transferred to the consumer market would be returned by the end of the quarter in the form of taxes; the other part would remain in the economy and its relevant share would be reflected in GDP. This proportion can be determined based on proportions of complete emissions of existing GDP, Value Added Tax (VAT) and final GDP. GMP used a correlation ratio of complete release and GDP for the retail trade, healthcare and social assistance sectors.

- Retail market uses it directly if we consider the fact that pensions and social allowances are not means of saving and they are used directly for buying necessities.
- Healthcare and social subsidies sectors use it because segments of pensions and social allowances belong to this sector according to the classification of economic activities.

### **Data Sources**

During the analysis, GMP focused on Integrated Household Survey datasets to describe the general trends with and without the USG cash contribution. The selected 8 quarters cover the period from July 1, 2008 (before the conflict) to the end of June 2010 (current status) because the results of quarter 3 will not be available until the end of December 2010. At the initial stage of analysis GMP came to the conclusion that to construct reliable trends and be confident with conclusions based on analysis covering two years of data would be limiting, therefore GMP obtained the IHS datasets covering the period from Q1 of 1999 to Q2 of 2010 and analyzed 42 quarters instead of the proposed 8-quarter period.

The IHS designed by the World Bank is implemented by Geostat. The data, since 1996, has been collected on a quarterly basis (approximately 6,000 households were interviewed). The survey instrument and tools were not changed thereby ensuring consistency in data collection, data processing and comparability during analysis. The IHS sampling is designed in a way to allow data analysis for each quarter at the national level. The error rate for such type of analysis is between 3-5% with 95% of confidence probability. The household total incomes and expenditures are quantitative variables, therefore the annual error rate (with 95% of confidence probability), is between 2-3%, which means that the data can be used for quantitative analysis and its accuracy is very high.

Geostat’s IHS was audited in 2009 by an independent auditor within the framework of the Millennium Challenge Corporation Program in Georgia. So far, it has been audited three times and a summary of conclusions for each reviewing round is available on the Millennium Challenge Georgia web-site ([www.mcg.ge](http://www.mcg.ge)).

The GDP calculation system was adopted by Geostat in 1996 and reviewed by International Financial Corporation (IFC) and International Monetary Fund (IMF) experts. The national GDP was recalculated by GMP considering all types of benefits generated by the USG cash transfer assistance. The analysis covered a 9-quarter period from Q2 2008 to Q2 2010. For the GDP recalculation, GMP received Excel spreadsheets on October 5 from Geostat.

## **Annex 2: List of Graphs**

Graph 1 – Distribution of USG \$250 Million Cash Transfer Assistance

Graph 2 – National Nominal GDP (in Thousands GEL): 1999-2009

Graph 3 – Foreign Direct Investments (in Thousands USD): 1999-2009

Graph 4 – Average Monthly Household Total Income and Total Expenditure Considering Seasonal Fluctuations (in GEL) 1999 – 2010 (Q2)

Graph 5- Average Monthly Nominal Household Total Income (in GEL): 2004-2008

Graph 6 – Share of Agriculture Income in Total Household Income (in percentage): 2004-2008

Graph 7 – Share of Income Generated from Employment in Total Household Income (in percentage): 2004-2008

Graph 8 – Share of Pensions and other Social Subsidies in Total Household Income: 2004-2008

Graph 9 – Average Monthly Nominal Total Household Income (in GEL): 2008-2009

Graph 10 – Share of Agriculture Income in Total Household Income (in percentage): 2008-2009

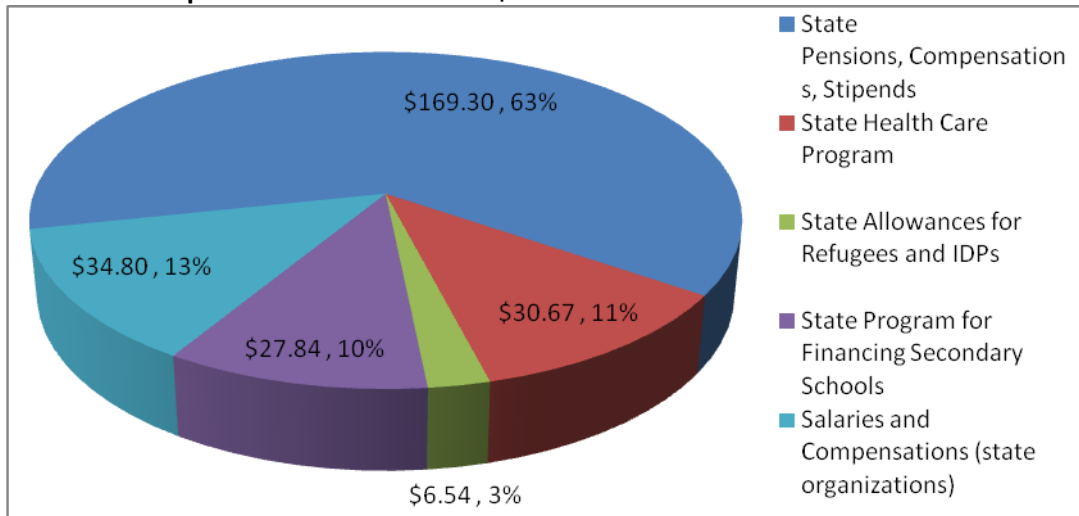
Graph 11 – Share of Income Generated from Employment in Total Household Income (in percentage): 2008-2009

Graph 12 – Share of Pensions and other Social Subsidies in Total Household Income: 2008-2009

Graph 13 – Average Monthly Nominal Total Household Income (in GEL): 2009-2010

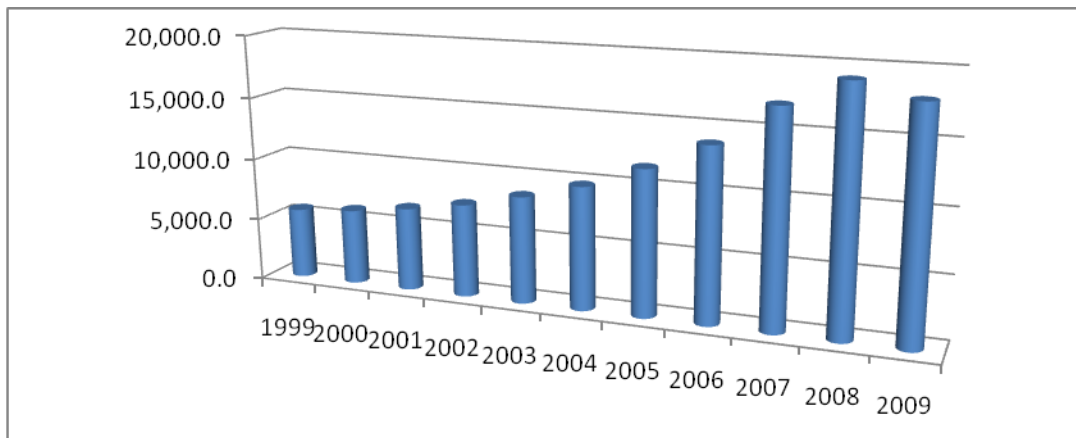
Graph 14 – Share of Agriculture Income in Total Household Income (in percentage): 2009-2010

**Graph 1: Distribution of USG \$250 Million Cash Transfer Assistance**



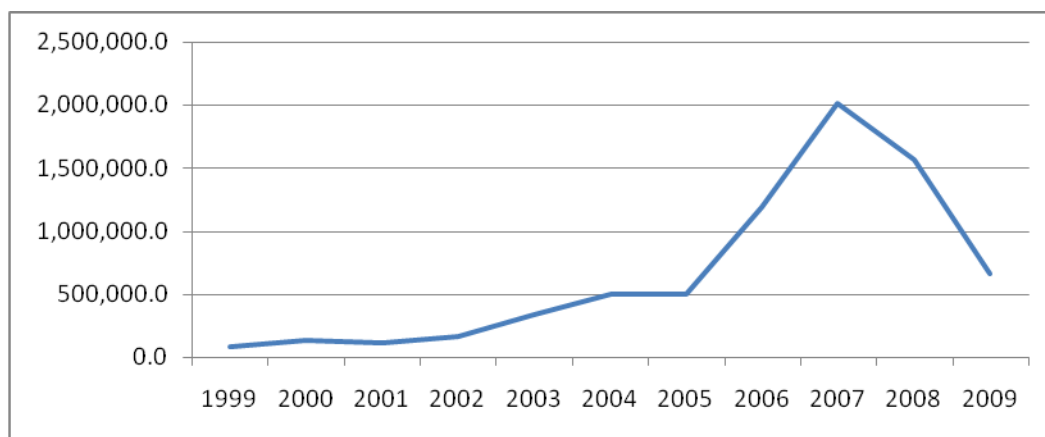
Source: Financial Audit of the GOG (Grant Thornton)

**Graph 2: National Nominal GDP (in Thousands GEL)**



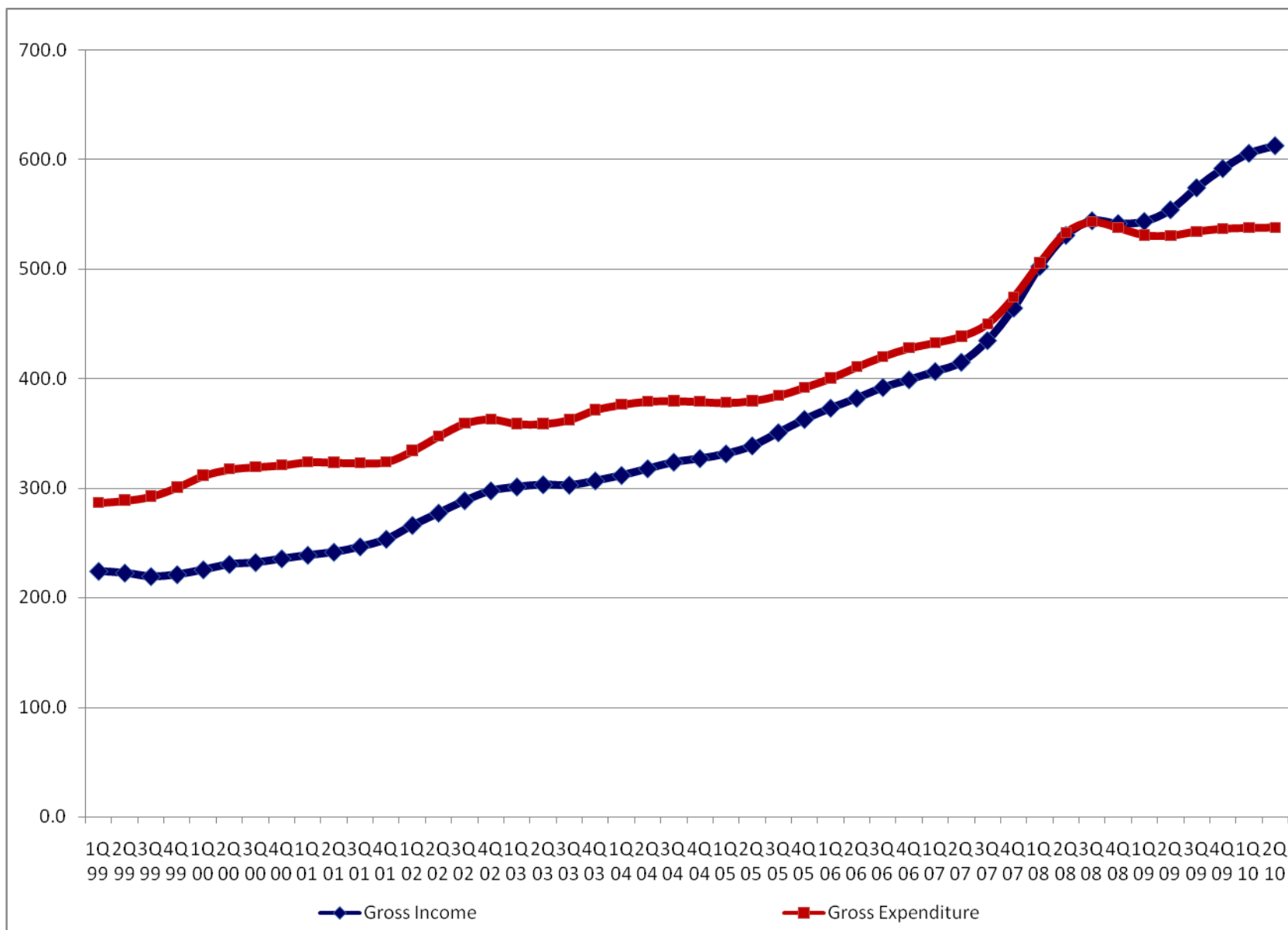
Source: Geostat

**Graph 3: Foreign Direct Investments (in Thousands USD)**



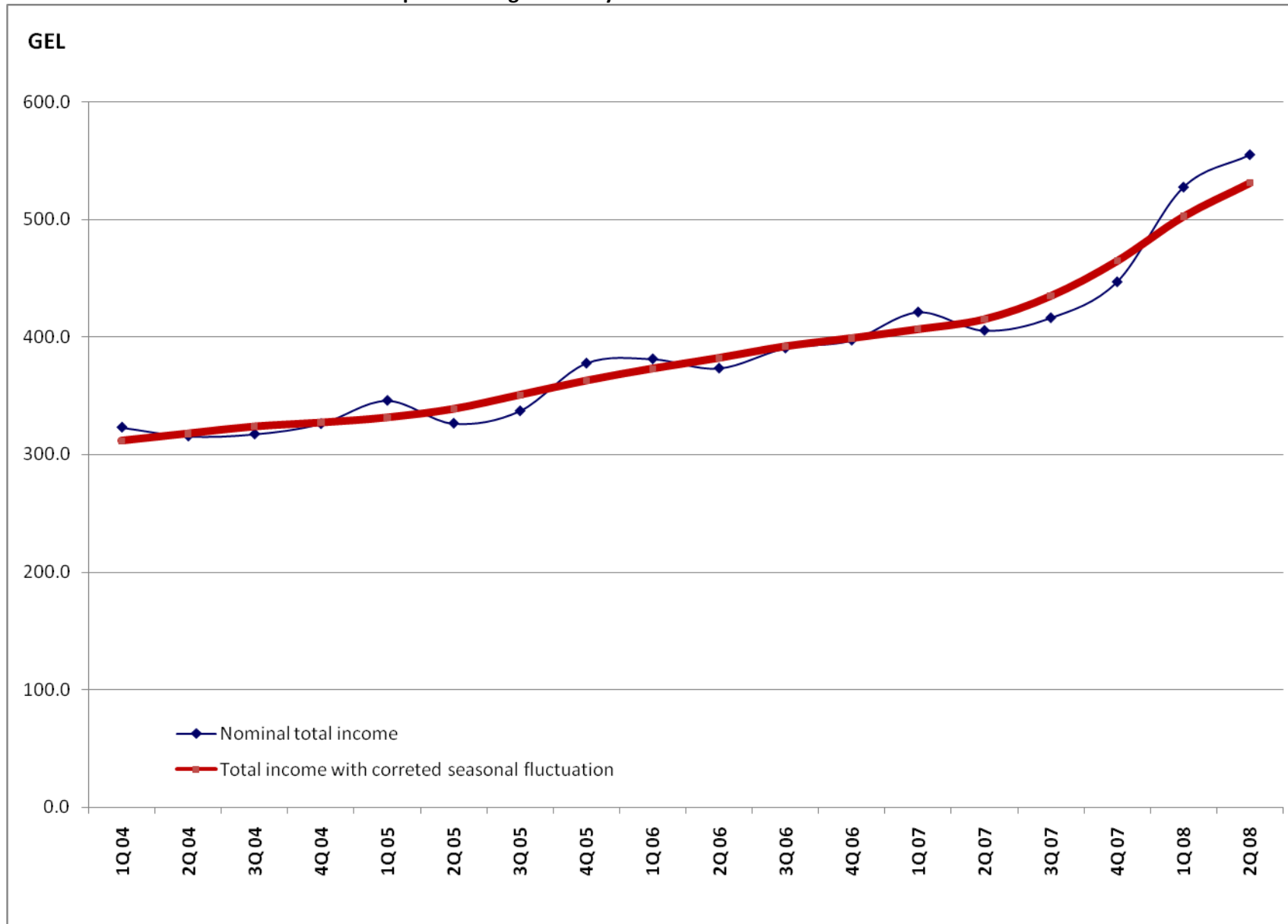
Source: Geostat

**Graph 4: Average Monthly Household Total Income and Total Expenditure Considering Seasonal Fluctuations (in GEL)**



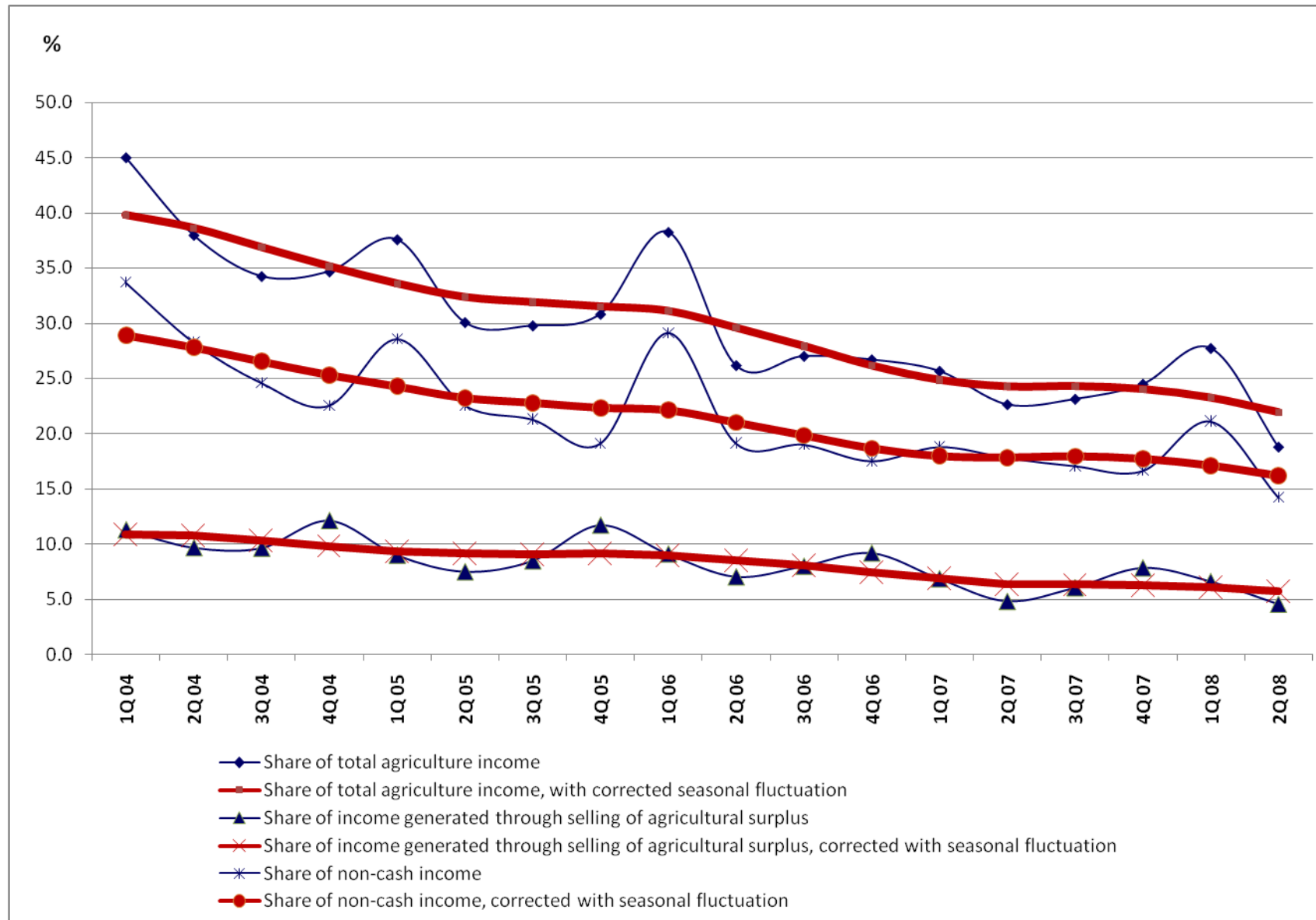
Source: Geostat

Graph 5: Average Monthly Nominal Household Total Income



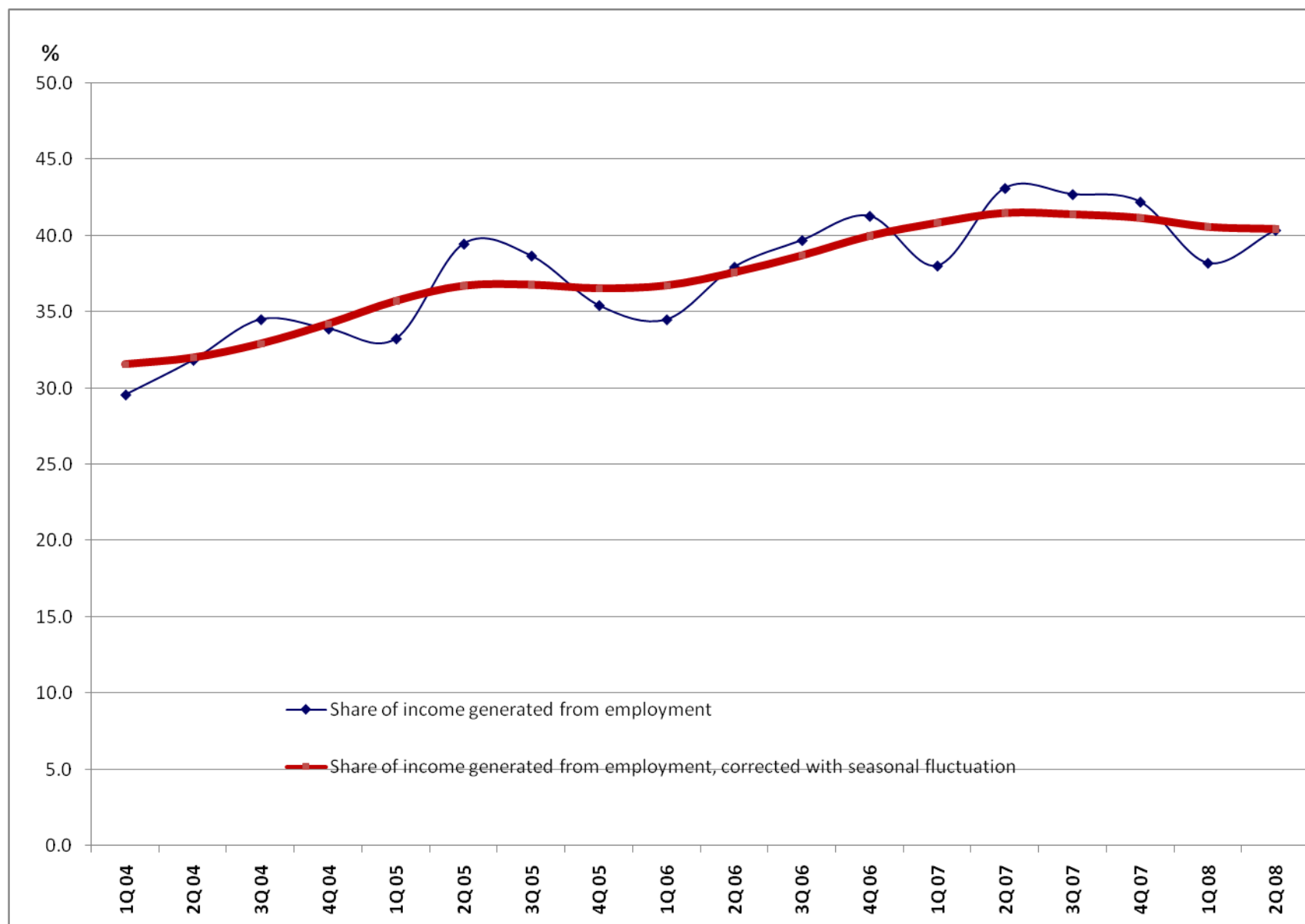
Source: Geostat

Graph 6: Share of Agriculture Income in Total Household Income



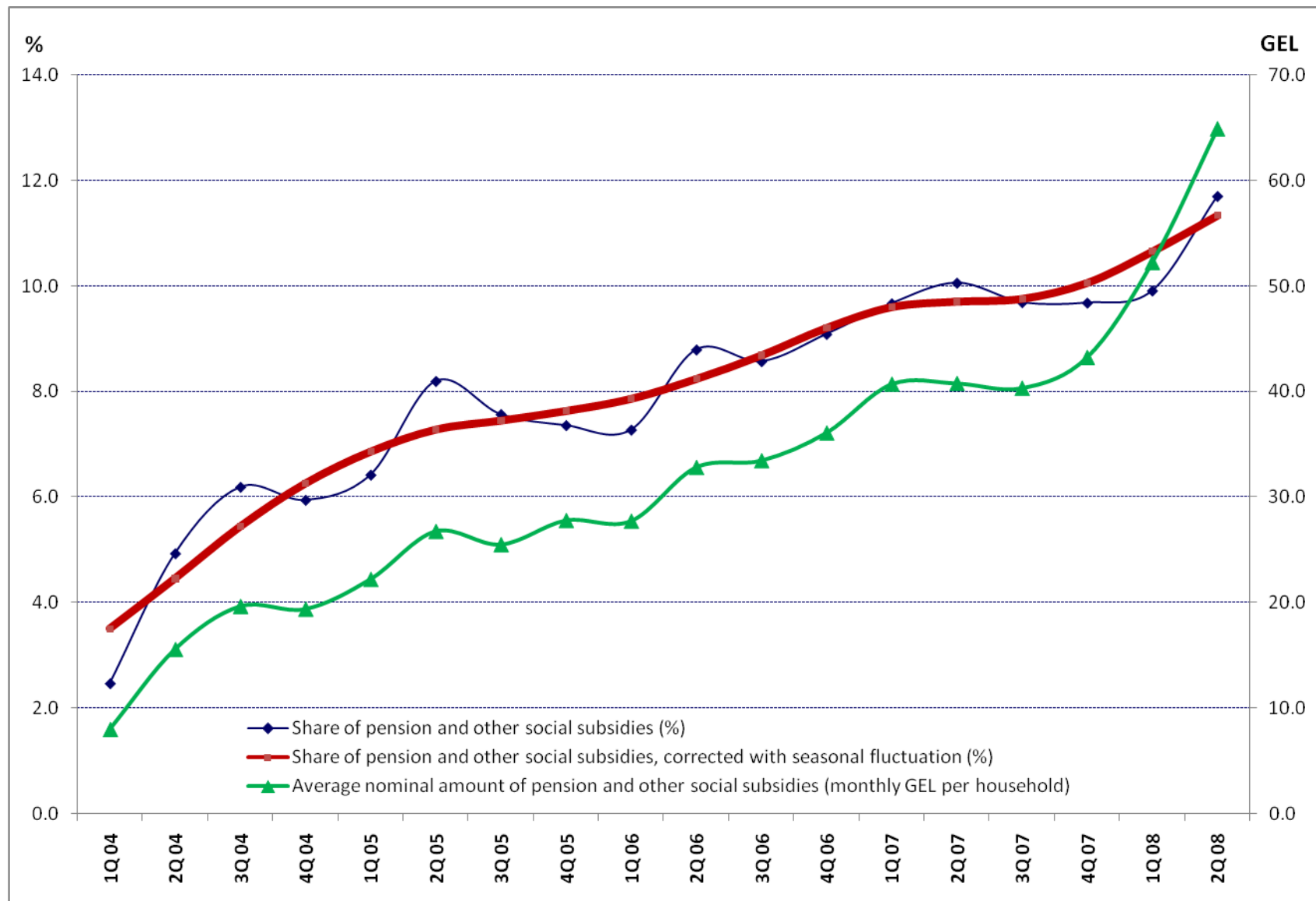
Source: Geostat

Graph 7: Share of Income Generated from Employment in Total Household Income



Source: Geostat

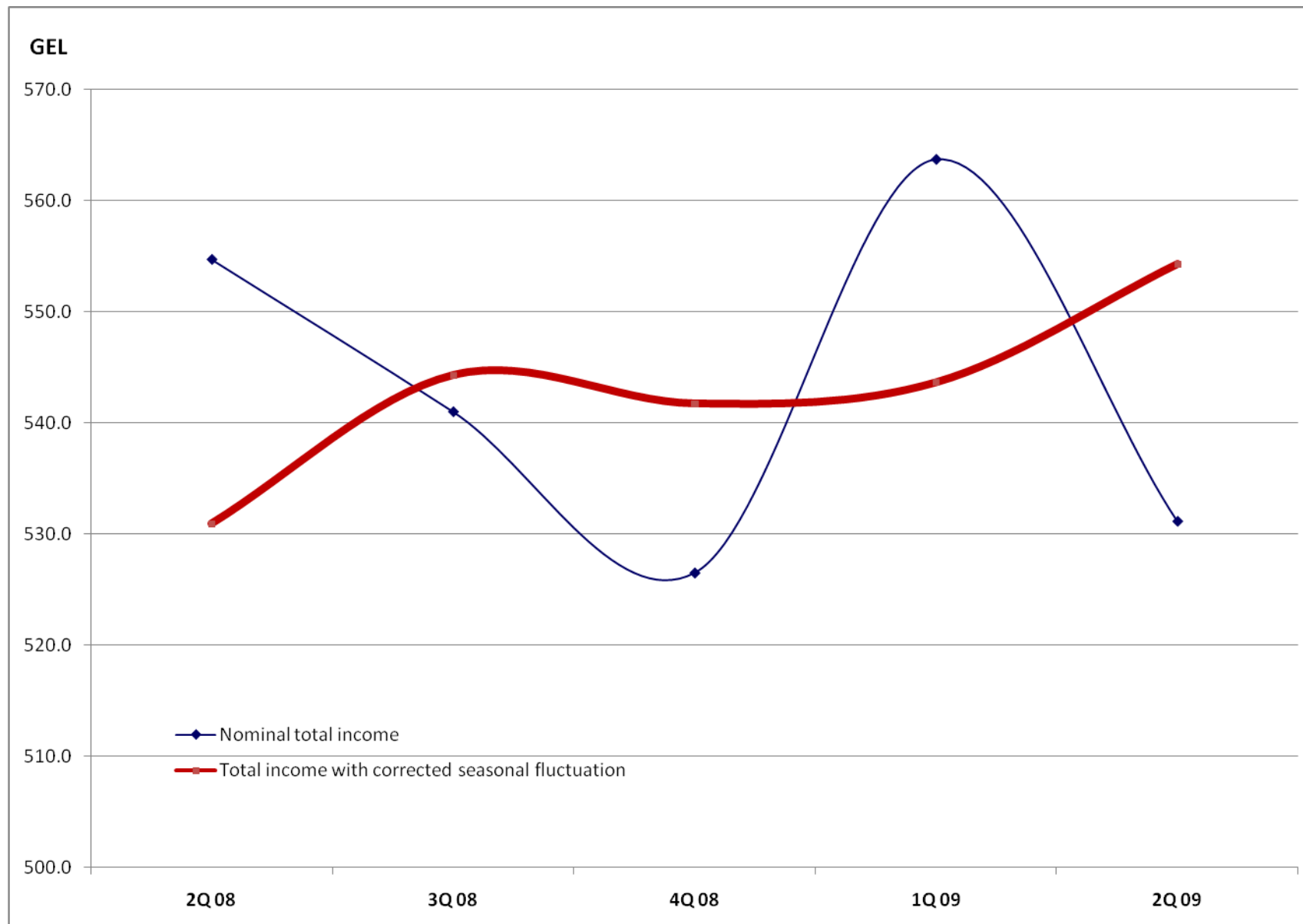
Graph 8: Share of Pensions and other Social Subsidies in Total Household Income



Source: Geostat

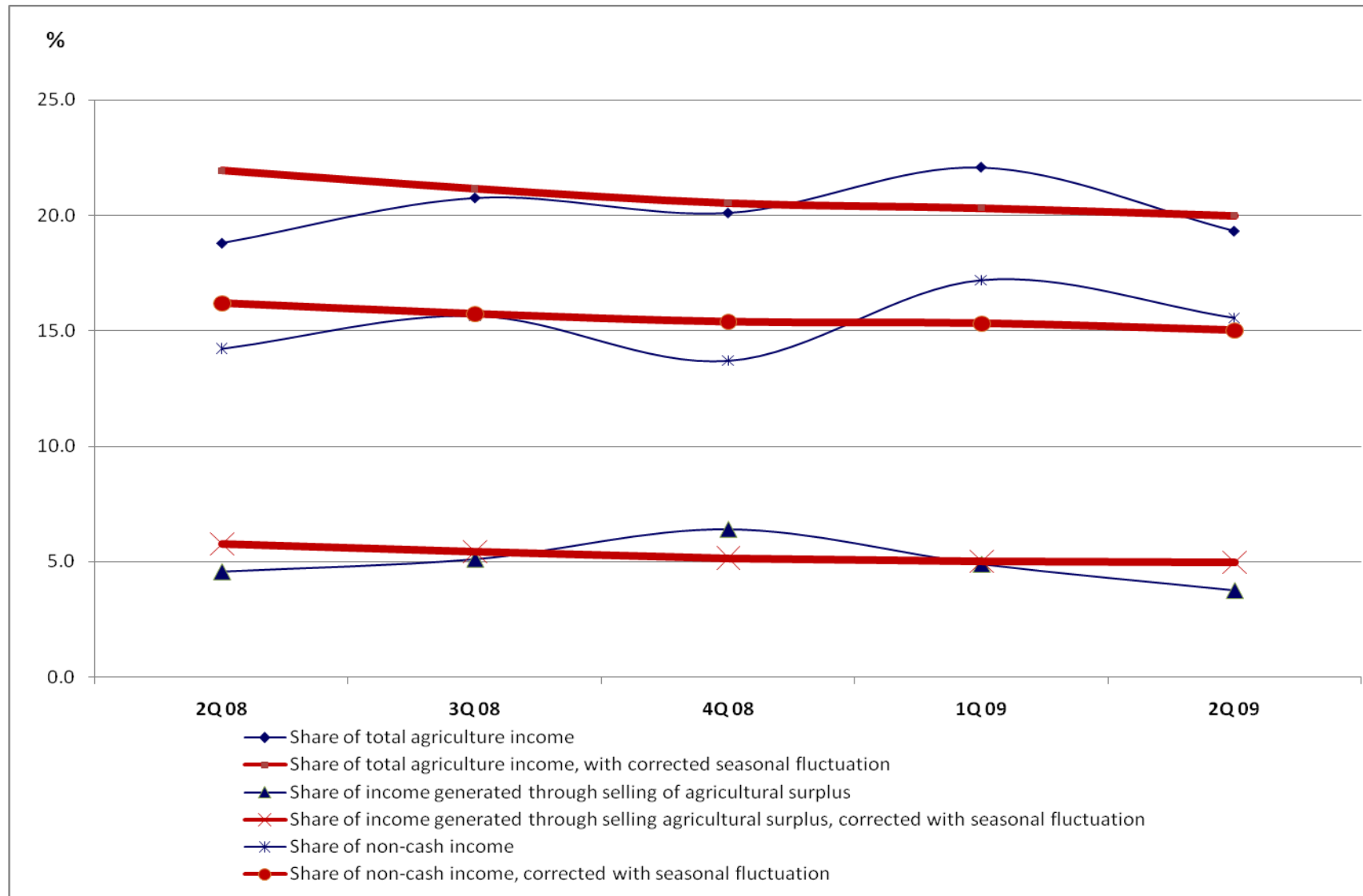


Graph 9: Average Monthly Nominal Total Household Income



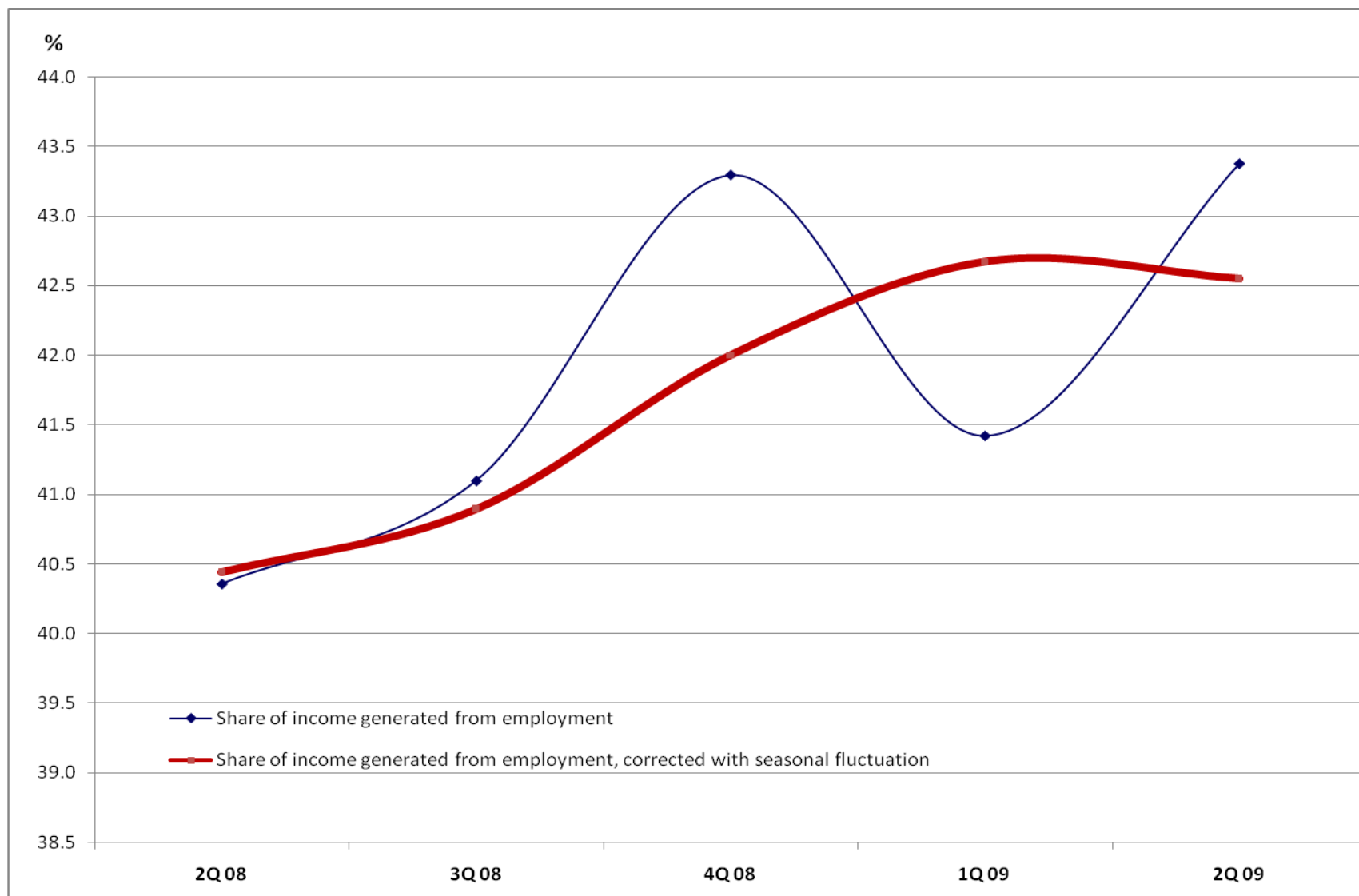
Source: Geostat

Graph 10: Share of Agriculture Income in Total Household Income



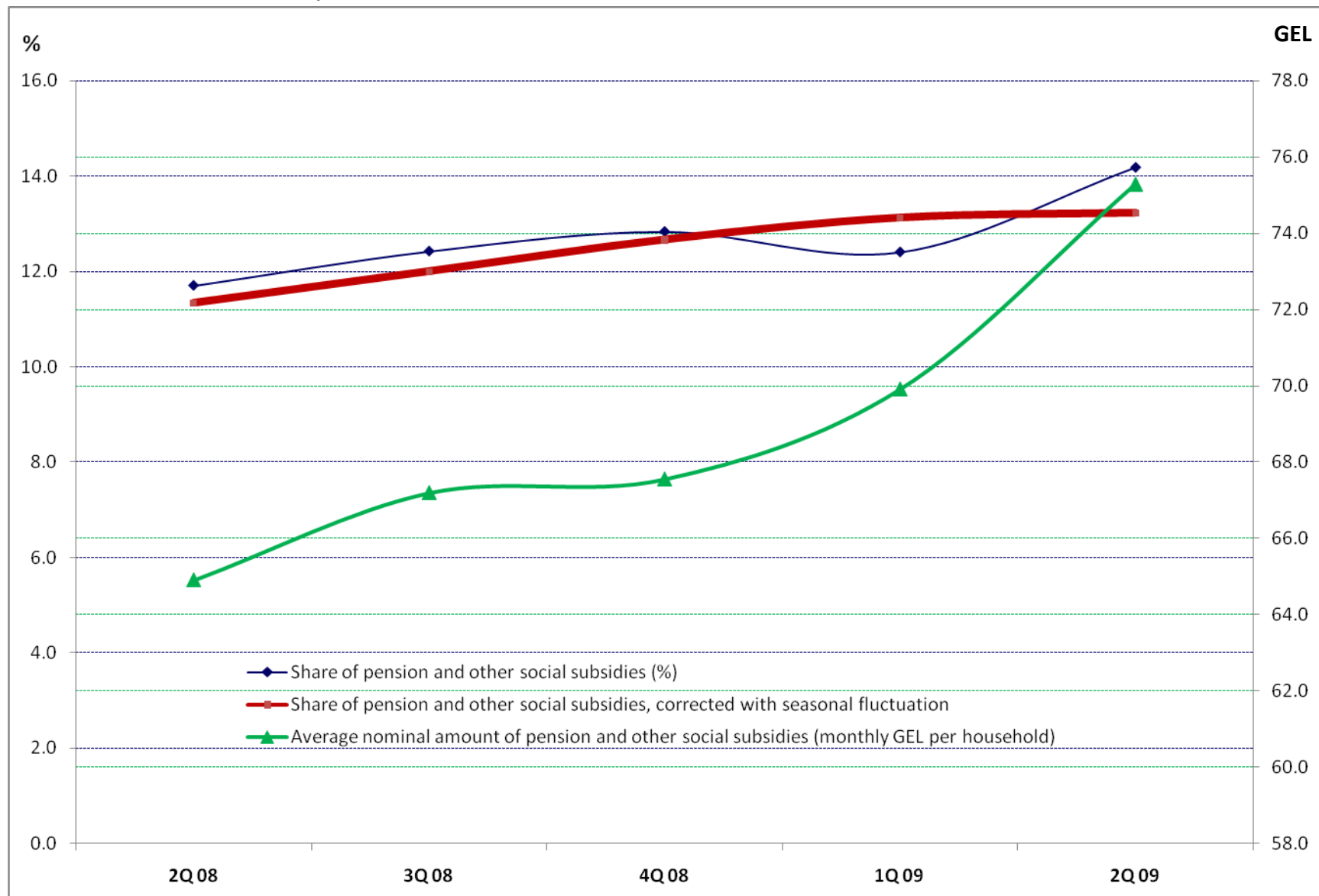
Source: Geostat

**Graph 11: Share of Income Generated from Employment in Total Household Income**



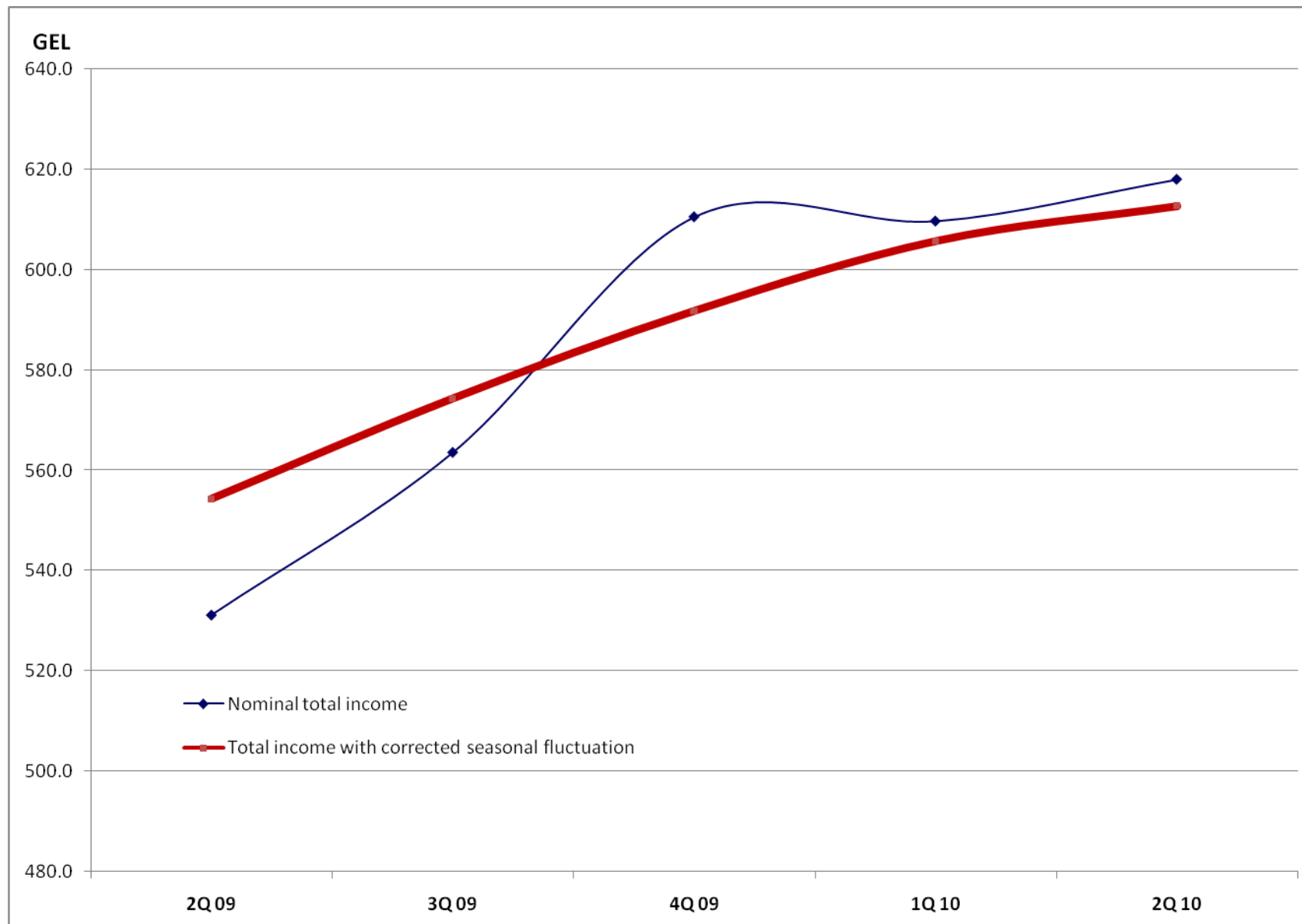
Source: Geostat

Graph 12: Share of Pensions and other Social Subsidies in Total Household Income



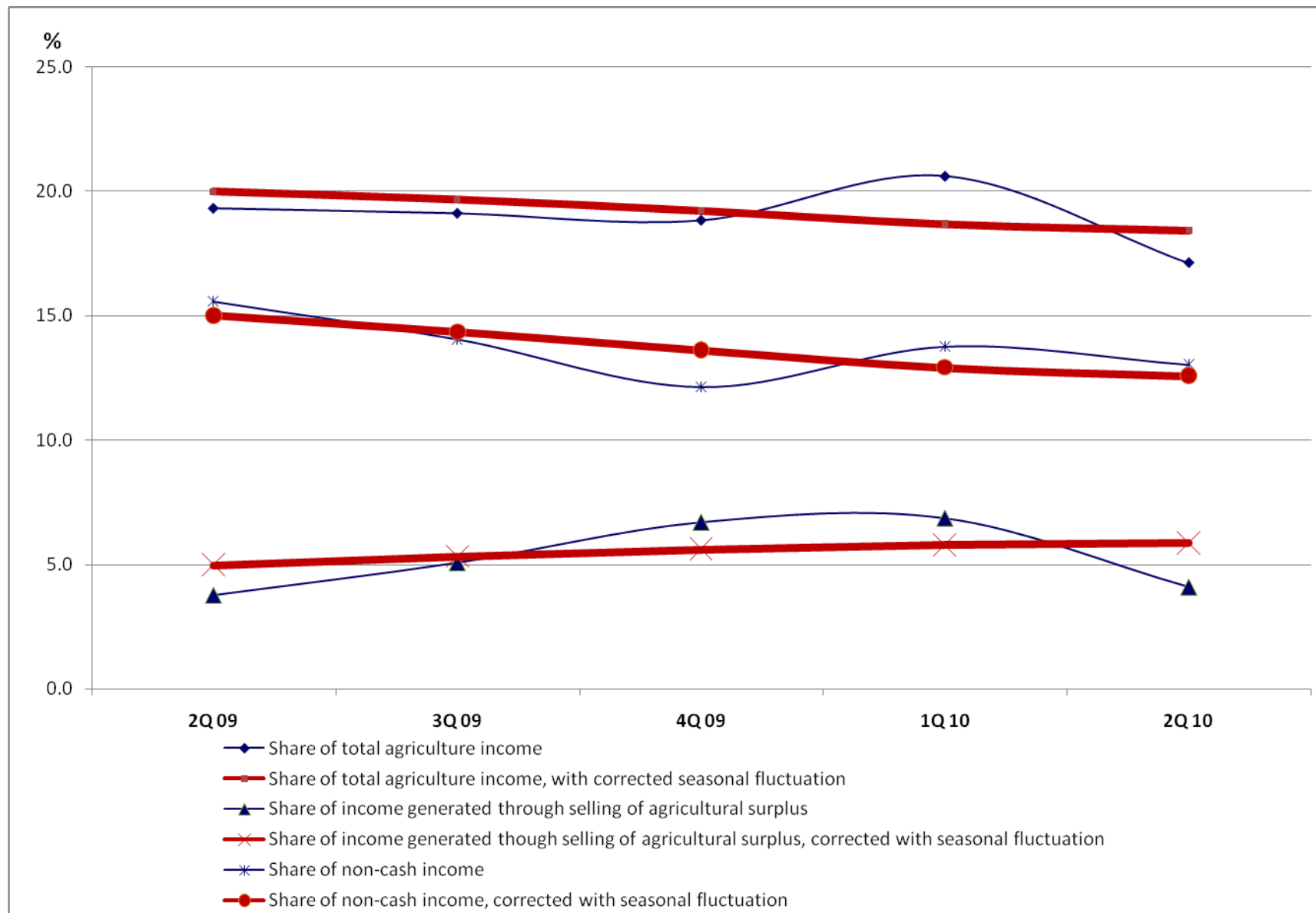
Source: Geostat

Graph 13: Average Monthly Total Household Income



Source: Geostat

Graph 14: Share of Agriculture Income in Total Household Income



Source: Geostat

### Annex 3: List of Interviewees

NAME	POSITION, INSTITUTION
Dimitri Gvindadze	Deputy Minister, Ministry of Finance
Giorgi Kakauridze	Head of Budgetary Department, Ministry of Finance
Kakhaber Kheladze	Head of Public Health Care Program Division, Ministry of Health Care
Giorgi Gomareli	Head of Economic Division, Ministry of Health Care
Giorgi Giunashvili	Chief Economist, Ministry of Education
Zaza Chelidze	CEO, Geostat
Lia Dzebisauri	Head of Macroeconomic Statistics Division, Geostat
Levan Gogoberishvili	Chief of Section of National Accounts - Macroeconomic Statistics Division, Geostat
Akaki Danelia	Head of Department of Information Bank Management and Statistical Analysis, Social Service Agency
Revaz Tsakadze	Deputy Head of Department of Information Bank Management and Statistical Analysis, Social Service Agency
Nodar Kapanadze	Independent Consultant

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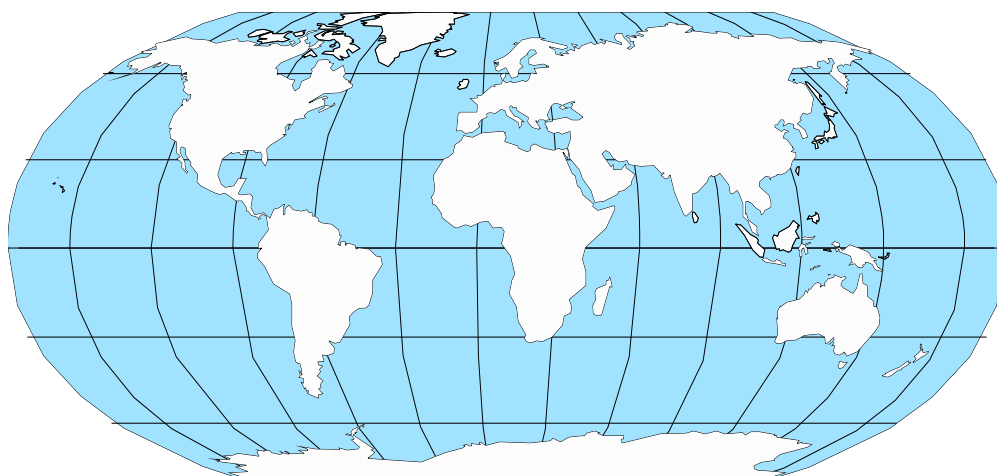
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# **IBTCI**



## ***UNITED STATES***

**8618 Westwood Center Drive, Suite 220  
Vienna, Virginia 22182• USA  
Telephone: (1-703) 749-0100, extension 234  
Fax: (1-703) 749-0110  
E-mail: akalotra@ibtci.com**

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